

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

VAT AND DEEMED SUPPLIES



VAT INSIGHTS

VAT and deemed supplies

One of the main VAT principles is that the input VAT paid on purchases is deductible only if the good or service bought is used for a taxable supply.

The article 45 of the GCC VAT Agreement reflects this principle by stating that Input Tax that has been borne cannot be deducted if it is for purposes other than Economic Activities as determined by each Member State.

The GCC VAT Unified Agreement defines a supply as "Any form of supply of Goods or Services for consideration [...]"

Supplies provided without compensation are not actual supplies, and are therefore located out of the scope of VAT.

It is the same issue in case of change of the use of goods from taxable to non-taxable supplies, or when retaining goods after ceasing carrying on an economic activity.

Therefore, in those cases, if the VAT had been deducted at the time of the purchase,

a regularization must be done to cancel this deduction.

There are two ways to implement this regularization: either to pay back the VAT deducted in the VAT return or to tax the value of the good or service at stake. The result is the same.

The GCC VAT Unified Agreement has chosen the second way.

That is the reason why the article 8 of the Agreement introduces the concept of Deemed Supply, called Nominal Supply in KSA, where the provisions of goods or services without consideration are considered to be taxable in certain cases laid out by member states.

Article 15 of the KSA VAT regulations puts the following limits: samples/gifts would not attract VAT, if the value is below 200 riyals per person per year, or below 50,000 total value of all gifts/samples per year.

Similarly, article 5 of the UAE VAT regulations put the following limits: 500 AED per person per year, and the total output VAT that would have been levied on the value of the gifts/samples does not exceed 2,000 AED per year. That is to say that there is a value exclusive of tax of 40,000 AED.

For the taxable deemed/nominal supplies, the Taxable Person must issue a tax invoice to itself.

The value of the good or the service to be used is the purchase price, the costs or the fair market value.

The company must record the invoice in the accounting ledgers and declare this output VAT in the VAT return.

Of course, there is no taxable deemed supply if the input VAT on the good or the service had not been deducted at the time of the purchase or if the supply is exempt.

It is the same thing in case of destruction, theft or loss of those goods, but the proof of those facts should be provided to the Tax Administration in case of tax audit.

Contact

Jean-Paul Ouaksel

Partner – Tax Services

RSM KUWAIT

E: jeanpaul.ouaksel@rsm.com.kw

Arraya Tower 2, Floors 41 & 42 , Abdulaziz Hamad Alsaqar St.,
Sharq, P.O. Box 2115, Safat 13022, State Of Kuwait

T: +965 22961000 | F: +965 22412761 | M: +965 66334467

RSM Kuwait is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association, 2017.